No. 86-495 (14)
86-624 (14)
86-625 (13)

IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

THE UNITED STATES OF AMERICA,
K MART CORPORATION, and
47TH STREET PHOTO, INC.,

Petitioners,

—v.—

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, CARTIER, INC., and CHARLES OF THE RITZ GROUP, LTD.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

AMICUS CURIAE BRIEF OF THE NATIONAL ASSOCIATION OF CATALOG SHOWROOM MERCHANDISERS

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QUESTION PRESENTED

Does United States law permit the sale of trademarked goods, initially purchased from the foreign manufacturer overseas but sold domestically, without the "authority" of the marketing affiliate of the foreign manufacturer?

PARTIES TO THE PROCEEDING

The petitioners are The United States of America, K Mart Corporation and 47th Street Photo, Inc. The respondents are Coalition to Preserve the Integrity of American Trademarks (COPIAT), Cartier, Inc. and Charles of the Ritz Group, Ltd. The petitions have been consolidated for consideration by the Court, upon Motion of petitioner United States of America.

Rule 28.1 Listing

Amicus, the National Association of Catalog Showroom Merchandisers states that it is a national trade association of discount retailers, that has no parent companies, subsidiaries or affiliates to list pursuant to Rule 28.1.

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INTEREST OF THE NATIONAL ASSOCIATION OF CATALOG SHOWROOM MERCHANDISERS AS AMICUS CURIAE IN SUPPORT OF APPELLANTS

The National Association of Catalog Showroom Merchandisers ("NACSM"), incorporated under the laws of the State of New York in 1972, is a trade association representing approximately 2,000 discount retail stores which do approximately $10 billion in annual sales. NACSM members range in size from

retailers doing billions of dollars in annual sales, to small businesses with sales of several million dollars per annum. All use a catalog, showing brand name products, as a principal medium of advertising. They provide essentially the same services as their retail competitors and sell a wide variety of mass merchandised consumer products, many of which are made overseas by foreign manufacturers and imported into the United States, either by the U.S. marketing subsidiary of the foreign manufacturer, or by independent American importers. Catalog showrooms sell these imported consumer products at discount prices, substantially less than those at which the "authorized" dealers ordinarily sell the same product. In recent years there have been numerous attempts by certain foreign manufacturers to prevent such consumer products from reaching the hands of "price cutting retailers" such as catalog showrooms, which has culminated in the proceeding presently before the Court.

NACSM believes this case raises important issues for domestic and international trade and argues in support of the petitioners that the United States Customs Service ("Customs Service") may, and should, permit goods bearing a valid trademark to be imported without the consent of the U.S. marketing affiliate of the foreign manufacturer.

Catalog showrooms sell, or have sold and anticipate selling in the future, a variety of products purchased from parallel sources, that is from other than the authorized U.S. distributor, such as Japanese watches and cameras, and European crystal and glass. They consider the term "grey market" a misnomer in describing open and healthy competition in identical merchandise purchased from the same foreign manufacturer.

Catalog showrooms consider the potential competition from these alternate sources a very strong disciplining factor in the U.S. market that well serves their interests, and those of the ultimate user, the consumer.

STATEMENT OF THE CASE

While this case is an appeal from the decision of the United States Court of Appeals for the District of Columbia Circuit,

it raises deep concern about attempts to prevent parallel imports and their serious domestic competitive impact, as well as foreign trade implications far broader and more serious than the mere expansion of domestic intellectual property rights. At issue is whether a foreign manufacturer can sell goods and put them into the free flow of international commerce, yet subsequently prevent domestic competition because of its marketing subsidiary.

Most often it is the United States marketing subsidiary of the manufacturer which objects to the "unauthorized" importation and sale of these goods in North America. Canada's highest court has already ruled that such imports are permissible[1] as have most other U.S. trading partners.[2]

It is presently being alleged in various forums that such practices violate U.S. trademark law[3], or copyright law[4], or contract law, or our criminal statutes.[5] Ultimately the matter may need be resolved by the Congress,[6] but there is compelling reason for this Court to presently uphold the position of the federal government.

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[1] *Consumers Distributing Co. Ltd. v. Seiko Time Canada Ltd.*, File No 18970 (Supreme Court Canada 1984)

[2] See Takamatsu, *Parallel Importation of Trademarked Goods A Comparative Analysis*, 57 Wash L Rev. - 433 (1982)

[3] 15 U.S.C. 1124

[4] 17 U.S.C. 602 (a)

[5] See Kelly, *An Overview of the Influx of Grey Market Goods Into the United States*, Vol 11/12 North Carolina Journal of International Law & Commercial Regulation, 231 et seq (1986); UCC 2-403; provides that an intermediary conveys good title to subsequent purchasers in the distribution chain; for varying views on criminal activity see *U.S. v. Weinstein*, 76 F 2d 1522 (11th Cir 1985) and *U.S. v. Boxer*, Case No. 72 Crim 462-J. Ryan, Tr. at pp 863-6 (SDNY, 1986).

[6] Senate Bill 2614, introduced into the 2d Session of the 99th Congress (1986) provided for clarification of Congressional intent to make clear that parallel imports are permissible under all federal laws. A similar measure is expected to soon be introduced into the 100th Congress.

SUMMARY OF ARGUMENT

We believe it critical to recognize seven factors in weighing the advantages of such international competition.

First, the parallel import (grey market) issue only arises, by definition, when the foreign manufacturer and the U.S. authorized distributor are related companies.

Second, by and large these products are all manufactured overseas and so this is not an issue of protecting U.S. industry.

Third, the foreign manufacturer has received the profit it set on the manufacture of the product when it made the first sale of this merchandise in international commerce.

Fourth, the foreign manufacturer has it totally within its own control to differentiate geographical markets by using differing trademarks.

Fifth, parallel imports exist because manufacturers, for their own reasons (ordinarily to reap an above-competitive profit in U.S. markets), set a price differential between worldwide prices and the prices their affiliate charges in this country.

Sixth, by seeking to control American markets, foreign manufacturers gain advantages inimical to U.S. interests, and contrary to the parallel import policy of virtually every U.S. trading partner.

Seventh, there is no compelling reason to reverse fifty years of legislative and judicial precedent interpreting Section 526 of the Tarriff Act of 1930.[7]

American importers provide an obstacle to price control of U.S. markets because they can purchase identical merchandise overseas at the competitive price and ship and sell these goods,

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[7] 15 U.S.C. 1526

often with their own superior warranty, at prices well below what the manufacturer's affiliate prefers to charge in North America.

The major consequence of such free and open competition has been lower prices of billions of dollars a year to American consumers.

ARGUMENT

It is a marketing reality of 1987 that brand consumer products sold in America are often made overseas and sold through mass merchandise channels of distribution. Parallel imports are only a portion of this international flow of product. By legal definition, such "grey market" concerns only goods sold abroad by affiliates of U.S. trademark owners, since American citizens owning U.S. trademark rights who are unrelated to the foreign manufacturer have an indisputable right to prevent importation.[8]

In determining legislative intent after fifty years of Congressional acquiescence, we respectfully argue that it is not inappropriate to take judicial notice of some of the harm Congress may have considered in refusing to ban parallel imports.

It does not contribute to the efficient allocation of resources in distribution of supplies throughout the economic channels of distribution for the United States, alone among the major U.S. trading partners, to "legitimize" geographical price discrimination of foreign manufacturers through a concept of a separate "territorial" submarket for the same trademarked product placed into international trade.[9]

Preventing "unauthorized" imports encourages what has been documented as higher prices to U.S. consumers of up to thirty

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[8] 19 C.F.R. 133; 15 U.S.C. 1526; 15 U.S.C. 1124.

[9] See Stigler, *The Organization of Industry*, University of Chicago Press (1983), p.9, as to the dual function of the efficient allocation of resources through both the manufacturing and distribution segments of our economy.

percent (30%) or forty percent (40%) for the identical merchandise. *Copiat v. U.S.*, 598 F Supp 844 (DDC 1984).[10]

Those foreign manufacturers, which can control the channels of distribution for parallel imports achieve the potential to avoid U.S. income taxes. This is made possible by charging an arbitrarily high wholesale price to wholly owned U.S. marketing subsidiaries, thereby shifting the excess gain earned in this country to an obscure earlier portion of the transaction.[11] Thus, there seems an added "tax-saving" incentive for foreign manufacturers to stop the price discipline provided by alternative sources for these goods.

Catalog showrooms can thus express a certain scepticism when opponents of such unauthorized imports call them "grey market goods" and stress the "unauthorized" nature of such sales, alleging misrepresentation as to the manufacturers' warranty. In examining claims for special protection for trademark territoriality of parallel imports under intellectual property rights statutes, we respectfully suggest that it is useful to adopt the approach of this Court, most noticeable in antitrust cases, in refusing to allow purported characterization or label classification to override market realities.

An initial perspective is suggested by the companion decisions of this Court in *Sears v. Stiffel*, 376 U.S. 225 (1964), and *Compco v. Daybrite*, 376 U.S. 234 (1964). In those cases the Court determined that simulation of lamp designs in what is commonly called in the retail trade as "knockoffs" was not unfair competition. The Court stressed that if a product was not sufficiently

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[10] The District Court opinion in the case at bar refers to such percentage differentials in retail price for the same merchandise; the public record submitted to the U.S. Customs Service pursuant to 49 Fed Register Notice 99 (5/21/84) provides similar information; see particularly the submittal of the National Association of Catalog Showroom Merchandisers - Sept. 1984.

[11] For general judicial recognition of the ability of foreign manufacturers to set different prices than those paid by independent American importers see *F & O Trading Corp. v. U.S.*, 580 F 2d 414 (1978); *Hamrick v. U.S.*, 585 F 2d 1015 (1978).

unique to merit a monopoly granted under federal intellectual property laws, it could be sold with impunity. Simply put, there are limits to the need to restrict competition in order to encourage "creativity." We believe the present situation clearer, since parallel imports are identical goods made in the same plant by the same manufacturer. The presumption should be that if the creator of the product has made its first sale and earned its profit incentive, the moment of control has passed.

Trademarks and The Tariff Act

Section 526 (a) of the Tariff Act of 1930 provides that in the absence of written consent of a trademark owner, it is unlawful to import into the United States merchandise of foreign manufacture that bears a registered trademark owned by a citizen of, or by a corporation or association created or organized within, the United States if filed with the Secretary of the Treasury in the manner provided by section 42 of the Lanham Act.

Section 42 of this Act, 15 U.S.C.1124, provides that no article of imported merchandise which shall copy or simulate a trademark shall be admitted to entry at any custom house of the United States. The Custom Regulations implement both Section 526 of the Tariff Act and Section 42. However, Section 42 has been construed to require the Lanham Act to apply only to merchandise bearing counterfeit or spurious marks that copy or simulate genuine trademarks. *Olympus Corp. v. U.S.*, 627 F.Supp 911 (EDNY 1985) (as discussed in the memorandum opinion of Judge Sifton).

The Second Circuit Court of Appeals in the *Olympus* case specifically concluded that Congressional acquiescence in the longstanding administrative interpretation was a valid exercise of customs enforcement discretion.

The Second Circuit has rejected the D.C. Circuit's decision in *Copiat* stating: "We disagree with that court's conclusion that "the Customs Service's interpretation of Section 526 does not display the necessary thoroughness, validity and consistency to merit judicial acceptance, at least in the face of Congressional

acquiescence in that interpretation." *Olympus Corp. v. United States*, 792 F.2d 315 (1986).

The decision before this Court on appeal presents conflict that must be resolved if there is not to be a severe disruption of international trade.

The Common Market as well as virtually every other foreign jurisdiction have examined the same issue, and none have concluded that there is a basis for such a non trade barrier as to prevent parallel imports. Not a single U.S. trading partner prohibits parallel imports.[12]

While the various federal courts have been in conflict on the issue, the Second Circuit Court of Appeals has been consistent in upholding the position of the Customs Service. In *Bell & Howell: Mamaya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d. Cir. 1983) the Second Circuit reversed the District Court, lifting a preliminary injunction on the grounds that since these were legitimate goods of the foreign manufacturer there was no confusion by consumers as to the source of the goods.

Other Courts have similarly held. In *Parfums Stern, Inc. v. The U.S. Customs Service, et al.*, 575 F. Supp. 416 (S.D. Fla 1983), the Court also rejected the request for a preliminary injunction, stating:

> "The Court further finds that in the exercise of its prerogative to cause the Oscar de la Renta products to be placed into the international stream of commerce, the plaintiff and its affiliated companies have found themselves in circumstances wherein their products are finding their way into the United States not by way of or through any illegal means and, therefore, the Plaintiff which holds the United States trademark is seeking the protection of the trademark laws to

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[12] See Takamatsu, *Parallel Importation of Trademark Goods: A Comparative Analysis*, 57 Wash. L. Rev 433 (1982).

> insulate itself from what it placed in motion itself through its own foreign manufacturing and distribution sources.
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> *Additionally, the Court finds that the Plaintiff's international enterprise was paid and receives compensation for the Oscar de la Renta products which are manufactured and produced by one of the Plaintiff's entities.* . . . Therefore, there is no evasion of legal rights flowing either to the manufacturer in the first instance or to the person or entity entitled to the royalties. What is occurring is that a complete circle has brought some of the Plaintiff's products back to haunt it in the United States". *Id.* at p. 7.

When faced by the issue the Canadian Supreme Court in the *Consumers Distributing Co. Ltd. v. Seiko Time Canada Ltd.*[14] case strongly supported parallel imports.

However, merely upholding U.S. Customs Service Regulation 19 C.F.R. 133 as an established element of the nation's foreign trade policy will not, in itself, resolve the serious ambiguity threatening open competition in international commerce for such foreign made merchandise. Only a definitive statement from this Court that proper interpretation of Congressional intent requres the conclusion that the federal statutes be properly construed in *pari materia* and that parallel imports are permissible under all federal statutes, including the Lanham Act[15] and federal antitrust law will fully address the problem before this court.[16]

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[14] *Consumers Distributing Co. Ltd. v Seiko Time Canada, Ltd.*, Docket No 16970 (1984); accord *Wilkinson Sword (Canada v. Juda*, 2 Can. Exch. 137 (1968); see also *Vivitar Corp. v. United States*, 593 F. Supp 420 (C.I.T. 1984).

[15] 15 USC 1124

[16] 15 U.S.C. 1; see *U.S. v. Guerlain, Inc.* 155 F Supp 77 (SD NY 1957); 358 US 915; 172 F Supp 107 (1958); see also *Timken v. U.S.*, 34 U.S. 593 (1951).

This brief will not repeat the detailed legislative history so carefully researched by the parties and reviewed by the various federal courts considering the issue. However, it seems appropriate to note that in the *Vivitar* decision before the United States Court of International trade, Judge Jane Restani, after a scholarly and exhaustive review of the legislative and judicial history of the regulations, lastly noted:

> "Congress is best suited to determine whether the current balance in trademark rights in international commerce is inappropriate."[17]

Furthermore, as noted above, it should be recognized that the governments of Canada, Japan, and Europe have refused to so protect manufacturers claiming "intellectual projects rights" at the expense of their own consumers. It appears a particularly inopportune moment to reverse fifty years of federal action, for the benefit of extra profits for foreign manufacturers upon a supposition of Congressional intent as perceived by the Court of Appeals for the District of Columbia Circuit.

As more fully discussed in Kelly, *An Overview of the Influx of Grey Market Goods Into the United States*,[18] the writers urge that there is more than sufficient legislative history to permit parallel imports and in balancing higher prices to consumers against perceived benefits of promoting these foreign made goods it is useful to reflect that protection of American industry is not the issue.[19]

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[17] *Vivitar Corporation Inc. v. U.S. et al.*, 585 F Supp 1419 (CIT 1984); see also *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), cert. denied, 106 S.Ct. 791 (1986); *Vivitar Corp. v. United States*, 593 F. Supp. 420 (CIT 1984).

[18] Vol 11, Issue 2, The North Carolina Journal of International Law & Commercial Regulation 231 (1986).

[19] S. 2614 introduced into the 99th Congress is discussed at footnote 6. Most of the other issues raised by opponents of the "grey market" appear designed

(Footnote Continued)

A Solution for the Foreign Manufacturer

There does remain one very real solution for foreign manufacturers who perceive "problems" from the "grey market." If the manufacturer cannot ban parallel imports, or prevent the use of the brandname, it has it solely within its own power to use different marks for overseas and American markets. These foreign manufacturers alone control what marks they affix to the products they sell in Japan, Europe, the United States and elsewhere. The camera or watch can be designated Aco, Bco, Cco, etc. if the manufacturer wishes to designate intended separate geographical markets for its products. Then the consumer would readily know the intended market. But this is not often done because it is not often the real intent. We are well into a worldwide economic distribution system that cannot be ignored.

This "globalization" of markets, however, rests upon the economic assumption that the most efficient allocation of resources will be achieved without geographic price discrimination by sellers. Particularly when it is American citizens who are the intended victims of the scheme, it appears appropriate for this Court to reaffirm its intent not to allow a diminution of competition in the distribution sector of our economy.

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more to cloud than to enlighten the debate. One of these is the issue of manufacturers' warranties. However, federal law, the Magnusson Moss Warranty Act, 15 USC 2301 et seq seems to provide for any requisite disclosure. The reality of the marketplace is that most grey market goods are mass merchandised products which have the warranty of the distributor with conditions equal to or greater than the comparable manufacturer warranty. This was recognized by the New York legislature, the first state legislature to pass a law specifically governing the subject. General Business Law Section 218(eee) which provides for disclosure that there is no manufacturer's warranty unless a retailer, distributor, importer or other financially responsible person provides such a warranty. A similar state law has been passed by the state of California (Assembly Bill 2735) Statutes of 1986, Chapter 1497.

CONCLUSION

Development of trade is dependent upon the retail store as the ultimate distributor. The search for a more efficient allocation of resources in our open distribution system has led to a variety of intermediary wholesalers and innovative retailers such as department stores, chains, discounters, and catalog showrooms. They find a better way not only to display and sell the product, but to go back to a wide variety of domestic as well as international sources to purchase.

Any attempt to stifle such open competition is suspect.

The National Association of Catalog Showroom Merchandisers respectfully requests that the Court reverse the United States Court of Appeals for the District of Columbia Circuit, in the public interest.

Respectfully submitted,

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